



Office of University Controller

4840 Pearl East Circle, Suite 101
436 SYS
Boulder, Colorado 80309-0436
(303) 492-9702
Fax: (303) 492-9722

October 6, 2006

Colorado State Senator Jack Taylor
Chair, Legislative Audit Committee
200 E. Colfax Ave.
Denver, CO 80203

Ms. Sally Symanski
Office of the State Auditor
200 E. 14th Ave.
Denver, CO 80203-2211

Dear Senator Taylor and Ms. Symanski:

The University of Colorado wanted to provide you a quick update on our progress in resolving the issues identified in the performance audits released in November and December, 2005. We have made substantial efforts. Of the University's 52 outstanding external audit comments, all but 17 have been completed. The 17 outstanding items have of low risk and are in the process of being implemented, with interim procedures that mitigate the University's risk.

Despite our substantial efforts resolving the performance audit issues, we are experiencing delays, and the actual implementation dates may be up to but no more than six months later than the dates published in the State Auditor's report.

During these efforts, the University has concurrently implemented other process improvements to mitigate risks identified through the University's continuous improvement process and to comply with new federal and state laws and regulations. Highlights of our activities are provided below:

Completed:

- Purchasing and Contract Management mandatory online training for new users
- Implementation on all campuses (except Boulder campus which will be completed in the next two weeks), including training, of new financial reporting tool;
- Campus training for multiple Administrative Policy Statements to reflect the University's new priorities and internal controls, including Propriety of Expenses;
- Implementation of new Personnel Effort Reporting System, including training
- Online reimbursement for employee payment and travel vouchers
- Training on the new Expenditure Control system to prevent deficit spending on all campuses
- Initial implementation of House Bills 1023 and 1343 (immigration laws) in procurement processes

October 6, 2006

Page 2 of 2

- Implementation of new Gift Fund Management process with the CU Foundation, including initial training

Nearing completion:

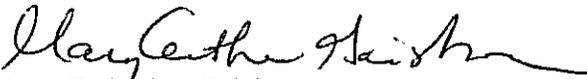
- Creation of an online Knowledge Database to answer frequently asked questions on fiscal policies
- Implementation of Standing Purchase Order encumbrances as required by fiscal rule
- Continuing updates and campus training for multiple Administrative Policy Statements to reflect the University's new priorities and internal controls, including Cell Phones and Special Events
- Finalization of enhanced requirements for adequate business documentation in forms, policies and training
- Implementation of the new Expenditure Control System to prevent deficit spending in Funds 26, 72, 28 and 80
- Completion of mandatory Gift Fund Management training on all campuses
- Implementation of a more effective communication plan on fiscal policy changes
- Implementation of "Welcome to CU" course and letter to new employees to explain CU's business environment

We would be pleased to provide you with any details about our progress that you would request.

Sincerely,



Robert Moore
Vice President of Budget and Finance



Mary Catherine Gaisbauer
Associate Vice President and University Controller

CC: Regents of the University of Colorado



May 24, 2006

Senator Jack Taylor, Chairman
Legislative Audit Committee
c/o Office of State Auditor
Attn: Sally Samanski, State Auditor
200 East 14th Avenue
Denver, CO 80203

Dear Senator Taylor:

The University of Colorado Foundation is pleased to provide an updated status report related to the Foundation's Performance Audit. Attached is a summary table of the 21 recommendations from the State Auditor. 17 of these recommendations were specifically addressed to the Foundation or to the Foundation and the University of Colorado. Four of the recommendations were addressed only to the University of Colorado. For the 17 recommendations, a brief description of the status and action taken towards implementation is provided.

The Foundation has completed the implementation of all 17 (100%) of the Auditor's recommendations. Significant progress on three findings (recommendations numbers 4, 6 and 7), all which involved extensive collaboration with the University, have been made since our report to the Legislative Audit Committee in early February. These three recommendations have now been implemented.

I would also like to share with you the selection of a new Audit Committee Chair at the Foundation, Jeremy O. May. Jeremy joined the Foundation Board in April of this year. Jeremy is a CU graduate with a Bachelor of Science degree in Accounting. He worked with Deloitte & Touche LLP in Denver and in 1995 joined ALPS Mutual Funds Services, Inc. where he is currently Managing Director responsible for the overall operations of the company and its client relationships. ALPS is a mutual fund services company, servicing over \$10 billion in mutual fund assets.

Finally, at our Board and Committee meetings in early May, the Audit Committee of the Foundation selected Protiviti Inc. to provide internal audit functions for the Foundation. Protiviti is a leading provider of independent internal audit and risk consulting with over 2,000 professionals in 40 locations worldwide.

The State Audit team has helped the Foundation in many positive ways to serve the donors and the University of Colorado. Should you have any questions please do not hesitate to call.

Again, thank you for your work, the hard work of the Legislative Audit Committee and your staff.

J. Wayne Hutchens
President and CEO

Attachment: State Audit Recommendation Status Report

cc: CU Foundation Board of Directors
Hank Brown, President, University of Colorado

University of Colorado Foundation - Recommendation Status

| Rec. number | Recommendation of the Office of the Colorado State Auditor | Completion Date | Status at March 23, 2006 |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | <p>The University of Colorado Foundation should formalize additional written policies and procedures for managing cash contributions, including:</p> <ul style="list-style-type: none"> a. Requiring that written documentation from the donor be obtained for all donations over a specified amount. b. Establishing a document retention policy to ensure that documentation from donors is maintained until the donated monies have been fully used or are no longer restricted. c. Implementing a standard format for documenting verbal instructions from donors for contributions below the specified amount. d. Contacting donors for clarification before recording any gift whose purpose is not clearly evident from information accompanying the gift and appropriately documenting the donors' instructions. | January 2006 | <p>Implemented.</p> <ul style="list-style-type: none"> a. New Gift Acceptance Policy approved October 3, 2005 requires donor intent documentation on all gifts, see Section IV A. Development of an enhanced receipt form is nearing completion. Staff currently being trained on new processes to achieve donor documentation for all gifts. b. New policy approved January 31, 2006. Implementation and training to follow. c. Development of the form is complete, staff training on going. d. New Gift Acceptance Policy approved October 3, 2005 requires contacting donors to verify or clarify donor intent if documentation is not provided or is unclear. Staff is being trained on this new process. |
| 2 | <p>The University of Colorado Foundation and the University of Colorado should work together to finalize, approve, and implement policies and procedures for handling checks received by the Foundation that are made payable to the University.</p> | November 2005 | <p>Implemented.</p> <p>Board approved a Policy Governing Checks Payable to the University of Colorado October 3, 2005. The Foundation has implemented standard procedures governing checks received by the Foundation but made payable to the University.</p> |
| 3 | <p>The University of Colorado Foundation should maintain all transfer requests from the University to provide supporting documentation for monies sent to the University.</p> | January 2006 | <p>Implemented.</p> <p>Foundation maintains all transfer requests from the University of Colorado. Imaging services approved by the BOD on February 3, 2006. Documentation Retention Policy approved January 31, 2006.</p> |

University of Colorado Foundation - Recommendation Status

| Rec. number | Recommendation of the Office of the Colorado State Auditor | Completion Date | Status at March 23, 2006 |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4 | <p>The University of Colorado Foundation and the University of Colorado should strengthen controls over transfers of gift funds from the Foundation to the University by establishing a direct relationship between all Foundation gift funds and all University gift accounts and their respective purposes. This information should be updated periodically in both entities' systems to ensure consistency as new funds and accounts are created.</p> | March 2006 | <p>Implemented.</p> <p>The Foundation, in collaboration with the University, has designed a process that provides a direct relationship between the Foundation gift funds and University gift accounts. The process includes a routine schedule to update the information in both entities' systems. This new process was implemented the first week in March 2006.</p> <ul style="list-style-type: none"> ▪ The Office of University Controller (OUC) conducted campus forums in October/November 2005 to discuss the change with departments. ▪ The project technical design has been documented and programmed. Testing is complete. ▪ The OUC and the Foundation have had bi-weekly project implementation meetings beginning in December and completed the first week in March. ▪ OUC and Foundation redefined fund manager (roles and responsibilities) and drafted new policies and forms. ▪ OUC and Foundation have agreed and implemented new enhanced purpose codes for all gift accounts. ▪ OUC with the Foundation designed and implemented a training program. Multiple training sessions have been provided on all four campuses. There are additional training sessions scheduled with completion planned in late April. |

University of Colorado Foundation - Recommendation Status

| Rec. number | Recommendation of the Office of the Colorado State Auditor | Completion Date | Status at March 23, 2006 |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5 | <p>The University of Colorado Foundation and the University of Colorado should make immediate improvements in the process of transferring gift monies from the Foundation to the University until the direct relationship recommended above is established by:</p> <ul style="list-style-type: none"> a. Providing instructions to University departments on completing transfer request forms to describe how the purpose of the request is consistent with the restrictions on the Foundation gift fund from which the monies are requested. b. Reaching an agreement on the review of the purpose codes during the transfer process and ensuring exceptions identified during the transfer process are resolved timely and prior to the University's use of monies. | November 2005 | <p>Implemented.</p> <ul style="list-style-type: none"> a. Transfer form instructions have been provided. Foundation has followed-up with individual fund managers to answer questions. No overriding issues with completion of the transfer form have been noted. b. Foundation has reached an agreement with the University. Their campus controllers are expected to timely review and resolve purpose code exceptions identified in the transfer process. |
| 6 | <p>The University of Colorado Foundation and the University of Colorado should make permanent improvements in the process of transferring gift monies from the Foundation to the University by:</p> <ul style="list-style-type: none"> a. Providing periodic training to staff on the processing of gift fund transfers, including joint sessions. b. Improving the use of the purpose codes as a control over donor monies by ensuring the codes are consistent between the Foundation and the University. | March 2006 | <p>Implemented.</p> <p>The Foundation, in collaboration with the University, has made permanent improvements to the gift management process by establishing (as part of recommendation no. 4):</p> <ul style="list-style-type: none"> a. Training program for university staff responsible for gift transfers and spending which highlights the control processes and departmental roles and responsibilities; and b. An enhanced purpose coding system to provide consistency between the University and Foundation, and adequate and understandable definitions related to donor restrictions. <p>See detail progress in Recommendation No. 4 above.</p> |
| 7 | <p>The University of Colorado and the University of Colorado Foundation should work together to implement and strengthen controls to ensure that gift monies are spent in accordance with donor restrictions. This should include:</p> <ul style="list-style-type: none"> a. Providing each fund manager with adequate documentation specifying the restrictions on the accounts for which they are responsible including where appropriate, written fund agreements. b. Establishing plans for both Foundation and University internal auditors to conduct specific audits of gift expenditures for compliance with donor intent and addressing concerns noted during the audits in a timely manner. | March 2006 | <p>Implemented.</p> <p>The Foundation, in collaboration with the University, has completed work to strengthen its controls by:</p> <ul style="list-style-type: none"> a. Providing enhanced information to departmental gift managers related to donor restrictions through the direct relationship process (discussed in recommendation no. 4), and, where appropriate, imaged documentation such as gift agreement excerpts; see detailed status in Recommendation No. 4 above; b. Developing a comprehensive audit program with an aggressive timeline. The Foundation, at the request of its Audit Committee, has outsourced the internal audit function to Protiviti. Implementation is scheduled for April 15, 2006. |
| 8 | Recommendation # 8 was directed only to the University of Colorado. | | |

University of Colorado Foundation - Recommendation Status

| Rec. number | Recommendation of the Office of the Colorado State Auditor | Completion Date | Status at March 23, 2006 |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 9 | <p>The University of Colorado Foundation and the University of Colorado should work together to develop written policies for accepting gifts in kind. The policies should address authority to approve gifts in kind, acceptable valuation procedures, evaluation of maintenance costs, and documentation of the need for each gift.</p> | November 2005 | <p>Implemented.</p> <p>Board of Directors approved the Gift Acceptance Policy on October 3, 2005 which addresses authority to approve gifts in kind (see Section III A), acceptance valuation procedures (see Section IV B), and evaluation of maintenance costs (see Section IV B). The Committee's involvement in GIK will virtually be eliminated as the University will now take over responsibility for review/acceptance of GIK.</p> |
| 10 | <p>The University of Colorado Foundation should strengthen its Gift Acceptance Policy and procedures by:</p> <ul style="list-style-type: none"> a. Clarifying the tenure and operations of the Gift Acceptance Committee. Specifically, the policy should state the process by which the Committee will document its decisions about accepting or denying gifts and report its decisions to the Board of Directors on a periodic basis. b. Requiring that staff collect and maintain documentation of the technique used to value each gift, the usefulness of the gift to the University, the analysis of any ongoing costs the University or Foundation may incur by accepting the gift, and the calculation of any consideration to be given to the donor. | October 2005 | <p>Implemented</p> <ul style="list-style-type: none"> a. Gift Acceptance Committee has adopted guidelines governing its actions, including voting, minutes of meetings, retention of committee documents, and reporting to the Board of Directors. b. Documentation regarding specific gifts including analysis of usefulness and/or anticipated costs associated with the gift will become part of the Gift Acceptance Committee's minutes. The Committee's involvement in GIK will virtually be eliminated as the University will now take over responsibility of review/acceptance of GIK. |
| 11 | <p>The University of Colorado Foundation should adjust its financial records to correct the recording of gifts by removing the \$5.75 million pledge receivable recorded in 1999 related to the leased property. In addition, the Foundation should reclassify the related property into land and building portions and adjust its financial records to reflect amortization only on the building portion, in accordance with FASB Statement No. 13. The Foundation should also ensure that it follows its policy with respect to recording gifts of privately held securities as gifts in kind.</p> | October 2005 | <p>Implemented.</p> <p>The Foundation has restated its June 30, 2004 financial statements to properly account for the capital lease and the related conditional promise to give. This restatement is reflected in the Foundation's audited consolidated financial statements of June 30, 2005 and 2004.</p> |

University of Colorado Foundation - Recommendation Status

| Rec. number | Recommendation of the Office of the Colorado State Auditor | Completion Date | Status at March 23, 2006 |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12 | <p>The University of Colorado Foundation should strengthen and enforce its policies governing employee expense reimbursements and credit card purchases by:</p> <ul style="list-style-type: none"> a. Requiring that staff provide itemized receipts for all purchases over a specified amount, such as \$25, as well as a written explanation of the business purpose of the expense and a list of participants for all meal and entertainment expenses. b. Requiring documented supervisory approval for expenses for all staff, including top management. c. Holding staff accountable for policy violations by requiring employees to pay for any unallowed expenses. d. Requiring the President's approval and a written justification for employees to purchase airline tickets directly rather than through the travel coordinator, and considering a prohibition on first-class and nonemployee travel. | October 2005 | <p>Implemented.</p> <ul style="list-style-type: none"> a. Board of Directors approved a stringent T&E Policy on October 3, 2005. Itemized receipts are required for purchases over \$25 (see Section IV) as well as written explanations of the business purpose and lists of participants for all meal and entertainment expenses. Five training sessions have been provided to approximately 100 staff members, implementation of the revised policy was on November 7, 2005. b. Documented supervisory approval is a requirement in the policy mentioned above (see Section IV). CEO expenses will be reviewed at least annually by the Audit Committee (see Section IV B. 16.). CEO will receive from the Controller an expense summary for all Foundation officers and executives at the senior VP level and above on a quarterly basis starting with 12/31/2005 (FYQ2) (see Section IV B. 16.). c. Staff is clearly held accountable for policy violations in the revised T&E Policy (see Section II, Section III, and Section IV). d. T&E Policy does not allow staff to purchase airline tickets directly. In extraordinary cases, executives can arrange their own travel but notification of these arrangements must be provided to the travel coordinator within 24 hours. These exceptions will be provided to CEO and Audit Committee for review and remedial action if needed. |
| 13 | <p>The University of Colorado Foundation should improve controls over administrative expenses by:</p> <ul style="list-style-type: none"> a. Establishing maximum daily limits for travel costs such as meals and lodging, restricting the use of limousine travel, paying expenses only for travel that has a business purpose, paying lodging expenses only for accommodations beyond a specified distance from the employee's home, and restricting the frequency and cost of staff-only meals. b. Clarifying the types of expenses that are allowable and may be charged to the Foundation for Board members and non-staff. c. Requiring pre-approval for high-dollar credit card expenses such as lodging in excess of established limits, last-minute air fares, and group meals and entertainment. | October 2005 | <p>Implemented.</p> <ul style="list-style-type: none"> a. Foundation has incorporated all of recommendations noted here (see Section IV B. 1.) in its revised T&E Policy, approved October 3, 2005. b. T&E Policy clarifies the Foundation will not directly reimburse University employees (see Section III). Individual requests from Board members for reimbursement will be reviewed by the Audit Committee. This policy was approved February 3, 2006. c. Pre-approval for high dollar expenses above the established limits are incorporated in the October 3, 2005 T&E policy (see Section IV B. 1.). |
| 14 | Recommendation # 14 was directed only to the University of Colorado. | | |

University of Colorado Foundation - Recommendation Status

| Rec. number | Recommendation of the Office of the Colorado State Auditor | Completion Date | Status at March 23, 2006 |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 15 | Recommendation # 15 was directed only to the University of Colorado. | | |
| 16 | The University of Colorado and the University of Colorado Foundation should develop performance standards in service contracts and the Foundation should report on the standards on an annual basis. The University and Foundation should use the established objective criteria to evaluate the Foundation's performance over time and identify and address areas for improvement. The Foundation should also continue to explore methods for comparing its performance with peer foundations. | January 2006 | Implemented. The Foundation executed a new service contract with the University which included specific performance standards and objective criteria to evaluate the Foundation's performance with annual reporting. |
| 17 | The University of Colorado and the University of Colorado Foundation should evaluate who should be responsible for special event administration and accounting. If the decision is to continue special events as a combined effort, the University and the Foundation should strengthen accountability for special events by developing a written agreement that specifies the services the Foundation will provide, the fees the University will pay, and the specific responsibilities for all parties involved in special events. | December 2005 | Implemented. The University will be responsible for special event administration and accounting as of December 1, 2005. |
| 18 | The University of Colorado and the University of Colorado Foundation should strengthen management for overseeing and processing the events, by: a. Implementing written policies and controls to ensure that all revenues and expenses are recorded in the appropriate special event accounts. b. Developing criteria for approving special events in written policies. c. Establishing procedures to assess the cost-benefit of each special event. d. Establishing cash control policies and procedures for all situations in which staff handle cash, including special events; training staff on the controls; and having an internal auditor review cash controls on a periodic basis. | December 2005 | Implemented. a. These policies and procedures were implemented prior to the State Audit. Foundation has not been administering new Special Events since December 1, 2005. b. These criteria and procedures were already implemented prior to the State Audit. c. Cost benefit analysis for two special events which the Foundation administered prior to the December 1, 2005 transfer of special events will be written once the event coordinators have provided the information. d. If the Foundation sponsors a Special Event, only check or credit card payments will be accepted, no cash. |
| 19 | The University of Colorado and the University of Colorado Foundation should reassess the Foundation's loan program and determine if it is a service the Foundation should provide. | January 2006 | Implemented. Foundation's Board of Directors approved a Policy Governing Loans to Affiliated Borrowers. Policy provides due diligence criteria that must be addressed prior to approval of any loan including credit worthiness of the borrower, status of security, and ability of the borrower to repay the loan. |

University of Colorado Foundation - Recommendation Status

| Rec. number | Recommendation of the Office of the Colorado State Auditor | Completion Date | Status at March 23, 2006 |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 20 | The University of Colorado and the University of Colorado Foundation should conduct a comprehensive assessment of the financial arrangements between the two organizations and consider ways to improve accountability and transparency, along with the restructuring options discussed in Recommendation No. 21. | January 2006 | Implemented. The Foundation approved the Operating agreement on 12/7/05, and the University's Board of Regents approved the agreement on 12/8/05. The Foundation BOD directed that execution of the OA be done simultaneous with the execution of the DSA, see 16 above. |
| 21 | Recommendation # 21 was directed only to the University of Colorado. | | |